



# Petroleum Market Report

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Energy Information Administration  
Office of Oil & Gas

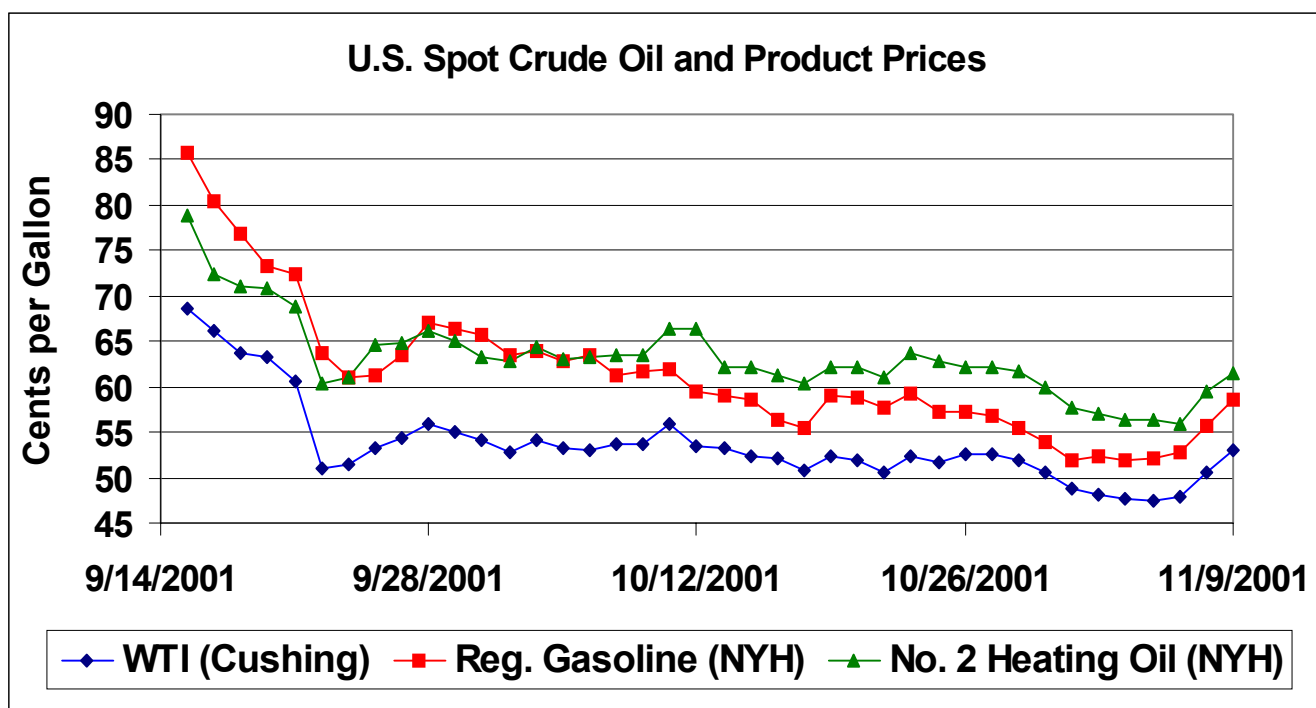
## MARKET SUMMARY

U.S. crude oil and petroleum product spot and futures prices moved solidly upward last week, posting the strongest gains since the September 11 terrorist attacks. After nearly two months of overall declines, generally attributed to economic weakness exacerbated by the aftermath of the attacks, the Organization of Petroleum Exporting Countries was finally able to establish a degree of credibility for proposed reductions in oil output by its members, along with possible cooperation from other exporters, in order to tighten the global supply balance. In the United States, surprisingly strong demand for gasoline and distillate was seen as helping to support prices, despite adequate and generally rising inventory levels.

**Crude oil** - prices continued to slide early in the week, with WTI spot and futures reaching new 2-year lows below \$20 per barrel before rising ahead of OPEC's November 14 meeting in Vienna. Weak demand and rising non-OPEC production have forced the cartel to publicly consider an increasingly large output cut in order to halt the price decline. As the week progressed, OPEC ministers touted a cut of up to 1.5 million barrels per day, along with requests for cooperation from leading non-OPEC exporters. Despite apparent skepticism from some analysts and traders, prices responded with a jump of more than \$2 per barrel on Thursday and Friday.

**Gasoline** - markets closely followed crude oil movements, with additional support from solid year-over-year demand growth and a small stockdraw for the week ending November 2. However, inventories remained nearly 9 percent higher than a year ago, and near the top of their seasonal average range.

**Distillate** - futures and New York Harbor spot prices dipped to 2-year lows on Tuesday, November 6, before following crude oil higher. A sixth straight stockbuild, for the week ending November 2, left U.S. inventories 11 million barrels (9 percent) higher than a year ago, and well within the seasonal range.



## **CHRONOLOGY OF RECENT MARKET EVENTS**

- 11/09 - rising** - all prices moved solidly upward for a second day, as Russian officials signaled possible support for a reduction in oil exports, ahead of a weekend meeting with OPEC representatives. NYMEX December crude oil closed at \$22.22 per barrel, the highest since October 24.
- 11/08 - rising** - prices rose solidly across the board, on growing indications of a likely OPEC production cut of up to 1.5 million barrels per day. Recent doubts about the adequacy of any probable OPEC action appear to have been eased by statements from Saudi Arabian, Kuwaiti, and Venezuelan officials touting the new, higher target reduction for discussion at next week's meeting.
- 11/07 - mixed** - most prices turned upward, as market participants focused on statements from OPEC sources that an output cut of 1 to 1.5 million barrels per day was likely. A solid crude oil stockbuild for the previous week was overshadowed by the OPEC news, but stronger-than-expected apparent demand helped to boost prices.
- 11/06 - mixed** - crude oil and distillate prices continued to ease, with NYMEX front-month crude oil futures closing below \$20 per barrel for the first time since mid-1999. Traders and analysts continued to question the ability of OPEC to control output sufficiently to return prices to its target range. Only gasoline prices rose slightly, amid reported refiner buying on cash markets.
- 11/05 - falling** - all prices drifted moderately lower, amid continued market doubts about OPEC's resolve to cut production. Reports that Russian exports rose in October bolstered the perception that non-OPEC exporters are unlikely to cooperate fully with the cartel to support higher prices.
- 11/02 - mixed** - technical short-covering ahead of the weekend helped to rally prices on Friday afternoon, but it wasn't enough to reverse losses for the week. NYMEX December crude ended at its lowest level since July 22, 1999.
- 11/01 - falling** - prices responded to news from the U.S. Department of Commerce that the U.S. economy contracted by 0.4 percent in the third quarter. Crude oil and petroleum product spot and futures prices ended down. OPEC talked again about a production cut, but this news was largely ignored.
- 10/31 - falling** - crude and product futures continued to fall as several non-OPEC producers decided not to support OPEC's production policies. Mexico decided to increase oil production to 1.71 million barrels per day, while Norway indicated that it most likely would not cut production in the face of falling prices. Crude oil inventories showed a large build, while distillate inventories increased slightly. Gasoline inventories showed a marginal draw, and the latest four-week average of implied demand showed that gasoline demand was 2.6 percent higher than this time last year.
- 10/30 - falling** - the market reacted indifferently to talk of an increase in the Strategic Petroleum Reserve. This may have been due to the fact that the proposed increase of 100 thousand barrels per day was perceived to be too small to significantly influence prices at current stock levels.